

Work Session

Agenda Item #	7
Meeting Date	October 18, 2004
Prepared By	Barbara B. Matthews
Approved By	

Discussion Item	Community Center Project Funding
Background	<p>The City Council previously approved a contract with James F. Knott Construction Company, Inc. for construction of the building addition and the demolition and renovation of the upper level of the Municipal Building. As of Pay Application No. 15, the value of the contract is \$7,361,151. There are a number of pending change orders and other items which staff is working to finalize. These items include a request from James F. Knott Construction Company, Inc. for additional compensation in the amount of \$333,923 for time delays and escalation in material costs; this matter is still under review.</p> <p>Bids for the Community Plaza Level of the Community Center (i.e., the renovation of the first floor administrative offices) were opened in early September. The low bid of Molina Construction for \$568,000 is valid through November 6; if the bid were accepted, the City would need to relocate staff for a period of approximately four months. As discussed at the Council meeting on October 11, Molina Construction has indicated that there will be an additional cost of approximately \$182,000 to extend his bid through March 2005. Staff has suggested that the extension of the bid might be a more prudent course of action than re-bidding the project at a future date given the escalation in construction cost. For comparative purposes, the other bid received by the City for the Community Plaza Level phase was in the amount of \$1,062,000.</p> <p>Identified project revenues total approximately \$8.9 million. Total project expenditures are difficult to determine at this juncture, until the aforementioned pending change orders and delay/material claim have been resolved. Based on the information presently available, it appears that the revenue shortfall could range from approximately \$1.3 million to \$1.7 million. The shortfall amount has been revised to reflect recent potential change orders, the cost associated with the extension of the bid of Molina Construction, and a contingency allowance. It is important to note that the potential shortfall assumes that the Takoma Foundation reaches its goal of raising \$300,000 for furnishings and computer equipment for the Community Center and does not include certain project amenities such as landscaping.</p> <p>Staff was previously requested to examine a number of funding alternatives to address the revenue shortfall. The City Manager's financial analysis is provided in the attached memo.</p>
Policy	The Council will discuss the various funding alternatives that are available to complete the Community Center project.
Fiscal Impact	Based on the information presently available, it appears that an additional \$1.3 million to \$1.7 million will be needed to complete the Community Center project.
Attachments	Updated Memo from City Manager regarding Community Center Funding
Recommendation	For Discussion Only
Special Consideration	

Memo

To: City Council
From: Barbara B. Matthews, City Manager
Date: October 15, 2004
Re: Community Center Funding

The City Council previously approved a contract with James F. Knott Construction Company, Inc. for construction of the building addition and demolition and renovation of the second floor of the Municipal Building. As you may recall, there are a number of pending change orders; staff and the project architect are working to finalize the costs of these items. Additionally, James F. Knott Construction Company, Inc. has requested additional compensation in the amount of \$333,923 for time delays and escalation in material costs as of early June 2004; this matter is still under review.

Bids for the Community Plaza Level of the Community Center (i.e., the renovation of the first floor administrative offices) were opened in early September. The low bid of Molina Construction for \$568,000 is valid through November 6. As discussed at the Council meeting on October 11, Molina Construction has indicated that there will be an additional cost of approximately \$182,000 to extend his bid through March 2005. For comparative purposes, the other bid received by the City for the Community Plaza Level phase was in the amount of \$1,062,000.

Identified project revenues total approximately \$8.9 million. Final project expenditures are difficult to determine at this juncture, until the aforementioned pending change orders and delay/material claim have been resolved. Based on the information presently available, it appears that the revenue shortfall could range from approximately \$1.3 to \$1.7 million. The shortfall amount has been revised to reflect recent potential change orders, the cost associated with the extension of the bid of Molina Construction, and a contingency allowance. Please be advised that these figures do not address any potential shortfall in the fund raising efforts of the Takoma Foundation, which is working diligently to raise \$300,000 for furnishings and other items for the new Community Center.

Staff was previously requested to examine a number of funding alternatives to address this shortfall. These alternatives are discussed below.

Use of Fund Balance

Each year, an independent audit is conducted of the City's financial statements. The audit for the fiscal year (FY) ended June 30, 2004 has not yet been completed. To facilitate the discussion of the Community Center project, staff has prepared an estimate of the General Fund reserve or fund balance as of this date. These figures are subject to change based on the results of the independent audit and should be viewed as preliminary in nature.

The General Fund reserve or fund balance is comprised of several components. These components are described below:

- The City's Charter requires a reserve for replacement of major pieces of equipment whose cost is a minimum of five percent of annual General Fund revenues.
- The City's Charter also requires a minimum reserve of \$250,000 to cover emergencies, adjusted annually each year to reflect changes in the Consumer Price Index.
- The City's operation of the New Hampshire Recreation Center is governed by an agreement between the City and Montgomery County. Use of the net operating proceeds is restricted in accordance with this agreement.

The total General Fund reserve or fund balance as of June 30, 2004 is estimated to be \$2,654,470. This figure is comprised of the following:

- Equipment Replacement Reserve (\$884,837)
- Emergency Reserve (\$312,421)
- New Hampshire Recreation Center Reserve (\$28,431)
- Appropriated Reserve to Balance FY05 Budget (\$767,589)
- Undesignated Reserve (\$661,192)

As you will note, a significant percentage of the estimated General Fund reserve or fund balance as of June 30, 2004 is restricted in nature.

It should be noted that the proposed budget for FY05 assumed an appropriation from the General Fund reserve or fund balance in the amount of \$667,589 in order to balance the budget. According to Treasurer Cathy Waters, a reconciliation error in the amount of \$100,000 occurred as the budget was being finalized. Consequently, the adopted budget reflects a higher reserve appropriation to balance the budget than may be necessary.

At this time, I do not recommend that any additional reserve monies be applied to the Community Center project. The funding available to address emergency or other unforeseen circumstances, particularly as a percentage of operating expenditures, is modest in my professional opinion. Because we just completed the first quarter of the fiscal year, it is difficult to predict final revenue and expenditure figures. Additionally, there continues to be uncertainty surrounding future funding from the State and County.

To provide the Council with other funding options for the Community Center project, staff analyzed potential revenue enhancements and expenditure reductions/reallocations. These measures are discussed below.

Potential Revenue Enhancements

The daily operations of the City are primarily financed by property taxes and revenues from other governmental agencies. Fees and service charges comprise a relatively small percentage of revenues; however, the Council has the discretion to modify them as it deems appropriate.

During the preparation of the FY05 budget, a number of revenue enhancement options were presented by staff. While reviewing the funding for the Community Center project, additional potential modifications in fees and service charges were identified. Several options are outlined below:

- Increase the fine for certain parking violations to approximate those of other communities. For example, the City assesses a fine of \$10 for meter violations.

According to Police Department staff, the fine for the same parking violation in Gaithersburg is \$40 while the fine in Hyattsville is \$25. Staff's research indicated that the City's parking fines for other violations are low compared to those of other cities. Additionally, staff noted that some of the other jurisdictions assessed fines for violations that the City currently does not have on its books, for example, the misuse of parking permit. Further research would be needed to determine the approximate revenue gain that could be realized by implementing these changes; budgeted revenues for all summons and forfeitures total \$150,000 for FY05.

- Increase the rental housing license fee from \$78 to \$100 per unit, which would generate approximately \$77,000 on annual basis. The fee structures for Montgomery County, Rockville, and College Park are based on the number of units in the building. The licensing fees for these jurisdictions are \$38 - \$95 for Montgomery County, \$50 - \$150 for Rockville, and \$100 - \$200 for College Park. The City may also wish to increase the rental housing transfer fee from \$75 to \$100, which would generate a nominal amount of revenue.
- Establish an application fee in the amount of \$100 to offset some of the processing cost for hardship and capital improvement petitions, which would generate approximately \$7,500. If implemented, it would need to be determined if the application fee could be rolled into any approved adjustment in tenant rents.
- Consider an increase in the tree removal permit of \$25. According to Public Works staff, the permit fee has not been adjusted since it was implemented in 1995. Budgeted revenues from this source total \$3,000 for FY05. The amount of revenue that would be generated from any increase would be nominal.
- Consider an increase in the fee for residential parking permits. As of June 1998, residents could purchase a parking permit for two years at a cost of \$20. This fee has not been adjusted since this date. The FY05 budget projects revenues in the amount of \$7,000 from this source.
- Initiate a fee for notary services. Currently, this service is provided free of charge to both residents and non-residents. At a minimum, the City may wish to implement a fee for providing this service to non-residents.
- Increase the fee for fingerprinting services, which is currently \$5 for residents and \$10 for non-residents, regardless of the number of cards.

In conducting my analysis of the Community Center project, I also identified two revenue sources that are not reflected in the FY05 budget. As you may recall, the Washington Suburban Sanitary Commission is providing financial support for the repaving of Maple Avenue. The \$25,000 that the City will receive is not reflected in the FY05 budget, according to Ms. Waters.

From time to time, the city has issued industrial revenue bonds pursuant to the Maryland Economic Development Revenue Bond Act to provide financial assistance to Washington Adventist Hospital. Neither the bond principal nor interest thereon constitutes indebtedness or a charge against the general credit or taxing powers of the City. By agreement, the City receives an annual payment of \$26,000 as long as the bonds are unpaid; this amount has been reflected as a Payment In Lieu of Taxes (PILOT). The FY05 budget does not reflect payment of this fee, as staff's understanding was the bonds had been paid. In discussing this matter with Adventist Healthcare, it appears that Series A of the bond issuance has been paid; however, Series B remains outstanding. Therefore, I believe that the City will receive a \$26,000 payment in June 2005.

The City previously received a PILOT in the amount of \$24,000 from the Washington Adventist Nursing and Rehabilitation Center. This agreement recently expired. Staff plans to pursue an execution of a new PILOT agreement with the institution, as well as explore the viability of PILOT agreements with other non-profit entities located in the City. These potential revenue enhancements are speculative in nature and would take time to implement; consequently, revenues from these sources cannot be counted upon to fund the Community Center project.

Potential Expenditure Reductions/Reallocations

Like other service industries, the City's operating expenditures are largely comprised of personnel costs. Consequently, it is difficult to realize significant savings in costs without impacting staffing and/or service levels.

During the preparation of the FY05 budget, staff presented a variety of options to reduce operating expenditures. While reviewing the funding for the Community Center project, additional alternatives were identified. Some options are outlined below for your consideration:

- Do not fill the position of Procurement Officer, which is currently vacant. The estimated savings by not filling this position for the remainder of FY05 equal approximately \$37,000.
- Eliminate part-time General Government position that performs passport application processing and other administrative functions. If the position were eliminated as of January 1, 2005, projected reduction in operating expenses for FY05 would be approximately \$10,800.
- Reduce hours of operation of the Landlord-Tenant Affairs Office to 20 hours per week. If this change were implemented as of January 1, 2005, the estimated savings for FY05 would total approximately \$12,900.
- Decrease funding for contractual grant writing assistance by \$10,000 in the Housing and Community Development Department budget, leaving a balance of \$5,000.
- Modify Library hours of operation on Thursday. Library would be open from 12:00 p.m. to 6:00 p.m. rather than 10:00 a.m. to 9:00 p.m. If modification were made as of January 1, 2005, the projected savings for FY05 would be about \$5,000.
- Reduce funding for new and replacement books by \$5,000.
- Change City newsletter from a 12-page publication to an eight-page publication, resulting in savings of about \$900 per issue. If change were implemented as of January 1, 2005, operating expenses could be reduced by \$5,400 for FY05.
- Reduce or eliminate the monies designated for specialized litigation services. The FY05 budget includes \$100,000 for this purpose; of this amount, \$563 has been expended.
- Utilize approximately \$50,000 of the monies budgeted for employee health insurance due to lower rates than projected at time of budget adoption, as well as staff turnover.
- Discontinue financial support of the Day Laborer Site on New Hampshire Avenue as of January 1, 2005 to avoid \$13,000 in expenses. It should be noted that, based on the City's budgeted monies of \$40,000 and the \$24,000 in financial support from Montgomery County, there will be a budgetary shortfall in FY05 of approximately \$14,000 for the Day Laborer Site if operations continue. I have apprised the Executive

Director of Casa de Maryland of the shortfall, and we have discussed ways to mitigate the financial impact to the City.

- Reduce the amount allocated for implementation of various City priorities by \$50,000. The FY05 budget includes \$140,000 for these initiatives, some of which has already been expended .
- Decrease funding for employee training by \$10,000.
- Reduce operating expenses for the Community Center and Computer Learning Lab by \$75,000. The FY05 budget assumed 26 weeks of operation for these facilities, which is not feasible given the current construction schedule.

As you may note, the options presented above do not represent wholesale changes in the level of City services. There are a number of service areas, which if eliminated or transferred to Montgomery County, could result in a significant reduction in operating expenditures. For example, the Council could elect to cease operations of the Takoma Park Library and to transfer the functions performed by the Landlord-Tenant Office and the Commission on Landlord-Tenant Affairs to Montgomery County. However, pending further Council and/or community discussion of service priorities, these modifications are not being proposed as a way of funding the remaining work on the Community Center project.

In accordance with the City Charter, the FY05 budget includes two contingency accounts. Combined, these accounts equal 2.5 percent of budgeted revenues, or a total of \$355,390. Account Number 7010, referred to as the "General Contingency Account", is budgeted at \$71,078; the previous City Manager committed approximately \$6,000 of this amount for a pocket park in Ward 6. Account Number 8200, referred to as the "Non-Department Unappropriated Fund," is budgeted at \$284,312; the Council previously allocated \$76,696 to the Community Center project. A portion of the remaining funds in both accounts (\$272,694) could be reallocated to address the Community Center project shortfall.

Bonding

As I indicated during a prior discussion of the Community Center, the City may wish to consider bond financing for completion of the Community Center project. Due to low interest rates, the cost of borrowing remains low. Additionally, in my professional experience, the financial burden for large capital projects that have a useful life of 20 to 30 years are generally spread out over many years, so that the cost is not borne solely by current taxpayers in the community.

Because the cost of borrowing is largely dependent on interest rates at the time the bonds are issued, it is difficult to provide you with a definitive number for the annual debt service payment the City would incur. To assist you in your consideration of this matter, Ms. Waters and I recently met with Mr. Charles Day, the Infrastructure Finance Program Manager for the Maryland Department of Housing and Community Development.

Mr. Day provided the City with several debt service scenarios. The scenarios assumed a term of 20 years and issuance costs equal to 3.25 percent of the loan amount; it is further assumed that the issuance costs would be added to the loan amount and amortized over the life of the loan. The present value is expressed as a percentage and indicates the estimated true interest costs on a specific loan amount for the designated term.

The results of the scenarios provided by Mr. Day are summarized below:

- For a principal amount of \$1 million and a present value of 4.29 percent, the annual debt service payment would be approximately \$75,000 over the term of the bond.

- For a principal amount of \$2.5 million and a present value of 4.11 percent, the annual debt service payment would be approximately \$190,000 over the term of the bond.
- For a principal amount of \$3.5 million and a present value of 4.10 percent, the annual debt service payment would be approximately \$260,000 over the term of the bond.

The varying principal amounts have been included in light of the desire of some Council Members to explore the feasibility of moving forward with the gym construction. If a decision is made to move forward with the gym construction, I recommend that a re-examination of the project be undertaken; doing so would provide the opportunity to validate prior cost estimates, as well as the necessity to address other issues such as parking requirements.

Conclusion

As indicated at the beginning of this memo, total project expenditures are difficult to determine at this juncture due to a variety of factors. These factors include the resolution of the pending change orders and the delay/material claim filed by James F. Knott Construction Company. Additionally, staff is working to finalize the costs associated with project phasing of the Community Level Plaza.

Based on the information available at this time, I believe it is reasonable to assume a revenue shortfall in the range of approximately \$1.3 million to \$1.7 million. Any shortfall in the fund raising efforts of the Takoma Foundation and/or the addition of any amenities such as landscaping would increase the amount required to finish the project.

Barring any significant changes in City staffing and service levels, I believe it will be difficult to complete the Community Center project without some level of borrowing. Staff will continue to examine other options for increasing project revenues and/or reducing operating expenses as this issue moves forward.